

Regional Economic Cooperation: An African Perspective

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Plenary Session I:

Why are Regional Economic Blocs and Regional
Public Goods Important for Development

Outline

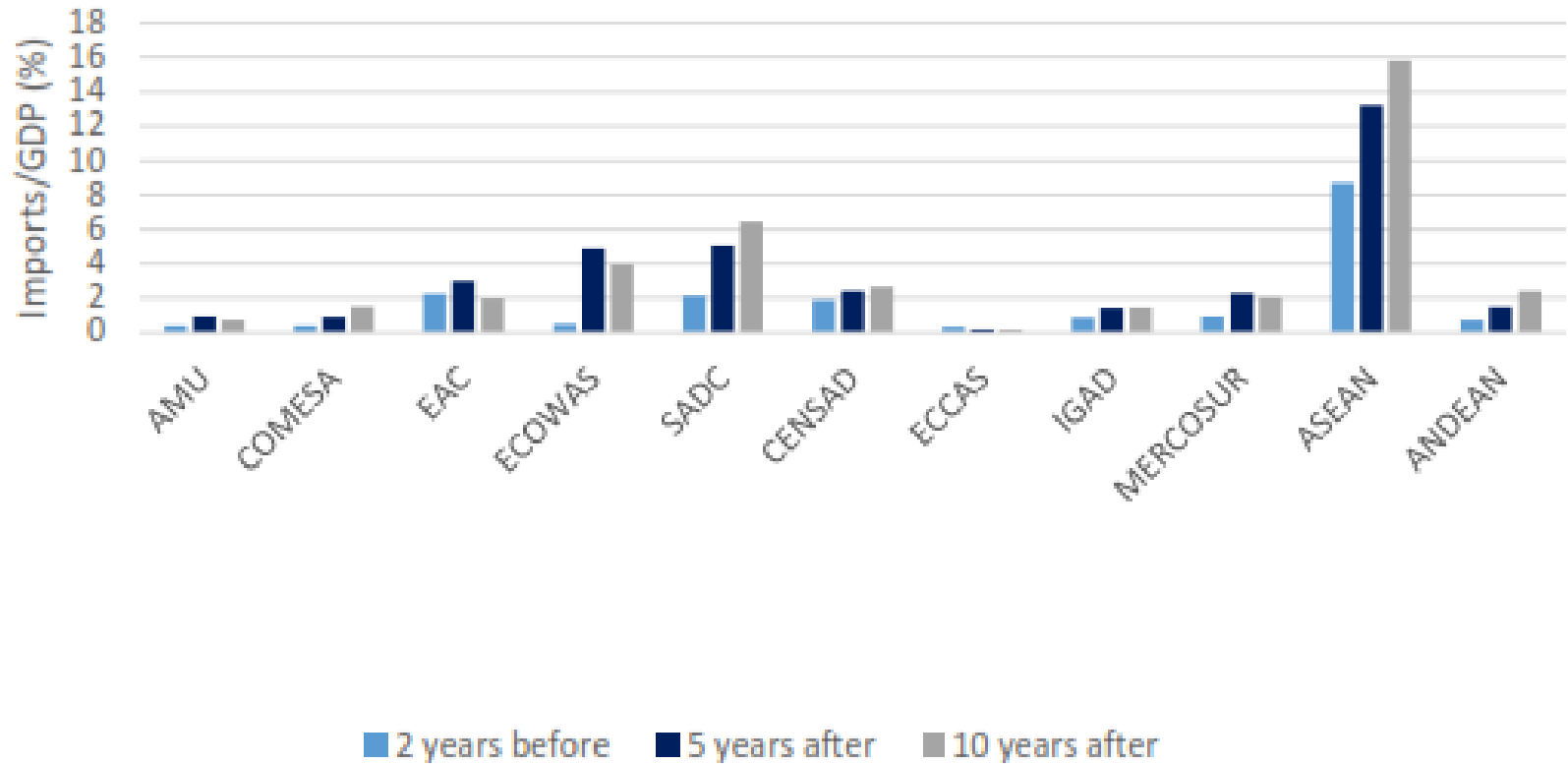
- Regional Public Goods (RPGs) perspective on a “Progress” report at integration across the 8 African Regional Economic Communities (RECs)
- Trade outcomes: What do they Reflect?
- Deepening of South-South RTAs
- Provision of Regional Public Goods (RPGs)
- Two examples of RPGs.
 - RECs as diplomacy
 - Case studies of Regional electricity markets

Trade Outcomes: what do they Reflect?

[--Trade costs have remained high across RECs

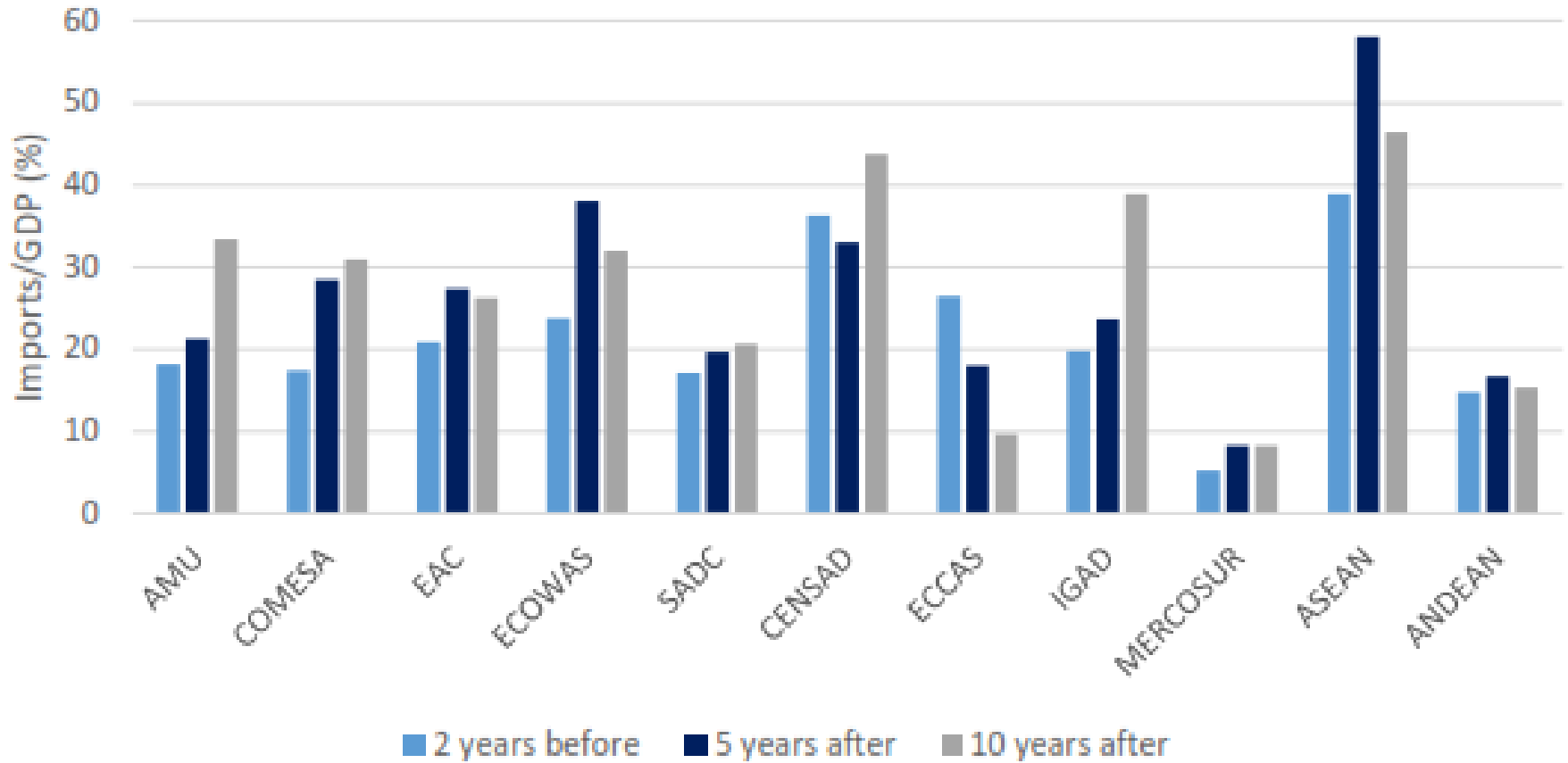
--Flawed Institutional Design resulting in
implementation capability trap]

Intra-bloc Imports/GDP

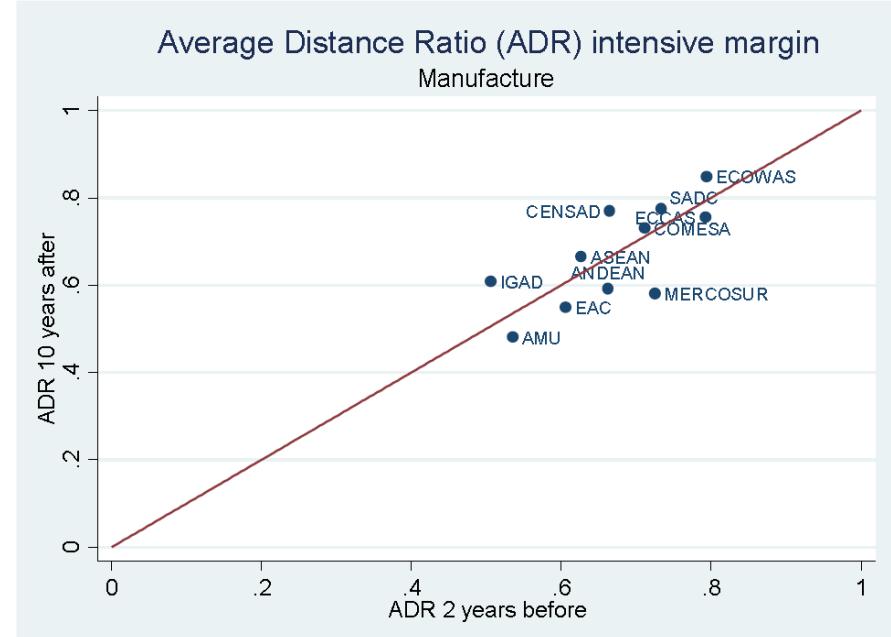
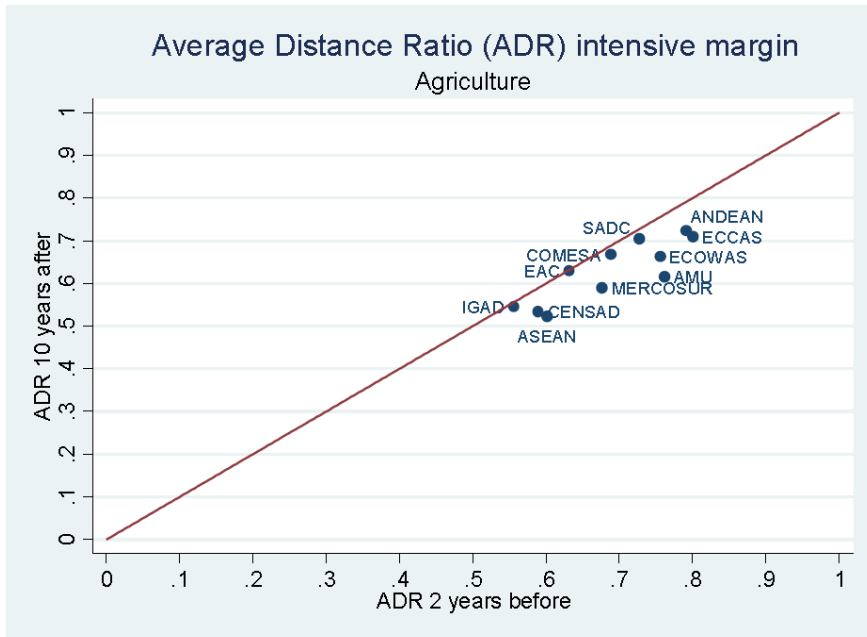


8 RECs + 3 comparators

Extra-bloc Imports/GDP



Actual/Frictionless Trade (ADR)



If trade costs had fallen more rapidly among REC partners, trade should have regionalized 10 years later i.e. Average Distance of Trade (ADR) ratios below the 45⁰ line
(Φ close to 1 \Rightarrow ADRs close to 1)

$$X_{od} = \frac{Y_o Y_d}{Y_w} \Phi_{od} ; Y_w = Y_o + Y_d ; \Phi_{od} < 1 \quad o = \text{origin}, d = \text{destination}$$

RTAs and WTO membership intensify trade in manufactures

Average Treatment Effects of RTAs RECS on Trade in manufactures (3-year panels 1967-2012)

	(1)	(2)	(3)	(4)	(5)	(6)
	OLS	OLS	EK Tobit	OLS	OLS	EK Tobit
SAMPLE	S-S trade only	S-S trade only	S-S trade only	All countries	All countries	All countries
PTA	1.053*** (0.0640)	0.372*** (0.0549)	1.647*** (0.149)	0.464*** (0.0383)	0.242*** (0.0279)	0.828*** (0.0849)
WTO	0.331*** (0.0726)	0.0660 (0.0658)	1.282*** (0.0711)	0.234*** (0.0526)	0.0835* (0.0449)	1.213*** (0.0452)
Ln(distance)	-1.473*** (0.0316)		-2.738*** (0.0631)	-1.450*** (0.0213)		-1.986*** (0.0402)
Observations	92,773	92,026	190,318	256,395	256,901	380,056
R-squared	0.639	0.754		0.729	0.822	
year	yes	yes	yes	yes	yes	yes
importer	no	no	no	no	no	no
exporter	no	no	no	no	no	no
importer*year	yes	yes	no	yes	yes	no
exporter*year	yes	yes	no	yes	yes	no
bilateral	no	yes	no	no	yes	no

Robust standard errors in parentheses, clustered at country-pair level

*** p<0.01, ** p<0.05, * p<0.1

Regressors include common language and common borde. Cols 3 and 6 includes GDPs and a contant term

Estimated PTA effect from cols. (3) and [6] (45%) [27%] $\{e^{0.372} - 1 = 45\%; e^{0.242} - 1 = 27\%\}$

Tariff equivalent est.: (13.2%) [8.4%] cols (2) & [5] and (74%) [52%] for cols (3) & [6].:

Source: Melo, Nouar and Solleder (2017)

What do outcomes Capture?

- In spite of controls for time, exporter-time, importer-time, and bilateral FEs, ATE estimates are implausibly large. Dyads are not time-invariant (Baier and Bergstrand (2007))
- Apples and oranges (even with S-S sample only). Using PSM lowers estimates significantly (Egger and Tarlea (2017)).
- May capture other effects: Reduction in Trade Policy Uncertainty, better bargaining power, attract FDI to serve internal market, provision of export-platform FDI.
- PTA increases bargaining set (see WTO-X below) + linkage helps enforce cooperation (reciprocal externality in the provision of RPG)
- (Nunn and Trefler (2015)). Weak domestic institutions a hindrance for contract-intensive manufactures.

Flawed Institutional Design

- Overly ambitious initiatives across the RECs (6 stages culminating in a continental FTA by 2017)
- Linear integration model (goods → factor markets → financial) with exchange of market access (vertical rather than horizontal integration).
- Neglect integration of Services important for horizontal integration via supply chain trade and for RPGs (see case study on electricity markets).
- Integration inspired by a 20th. Century «exchange of market access » rather than a « new bargain » of exchange of unilateral reduction in protection for FDI. (Baldwin (2012))

Flawed Institutional Design (c'td)

- Large number of regional institutions focusing on consensus decision-making to reduce heterogeneity costs at very early stages of integration.
 - EU: 13 institutions over 50 year span.
 - ECOWAS: 6 institutions + 10 specialized agencies + 2 private sector organizations;
 - COMESA: 11 institutions;
 - EAC : 8 institutions.
- ⇒ ‘Capability trap’ « where systems adopt organizational forms that are successful elsewhere to hide dysfunction” (Pritchett et al.)
- COMESA: 217 decisions in Common Market Gazette.....but 13% addressed to no one !

The deepening of South-South RTAs

[--Depth (e.g. EAC) helps the provision of RPGs

--but low legal enforceability across RECs]

PTAs up by a factor of 10 since 1990 (2/3 of WTO-notified RTAs are South-South)

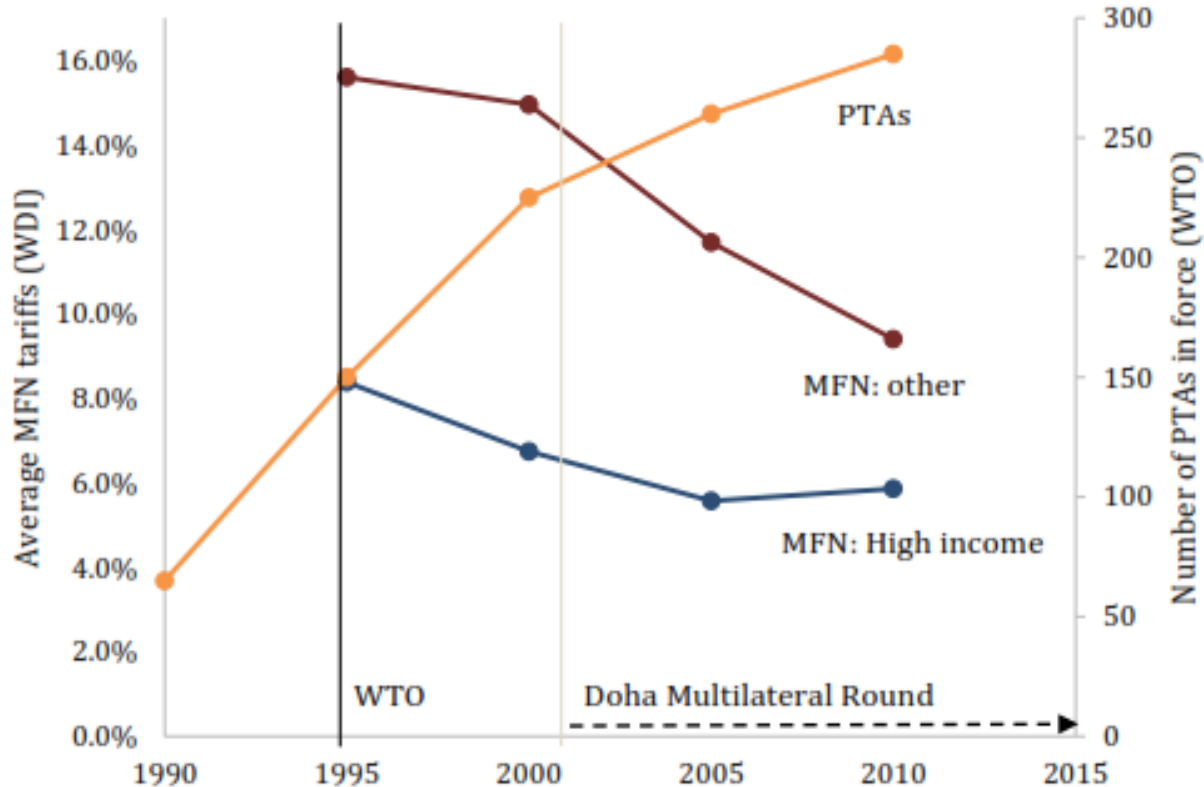


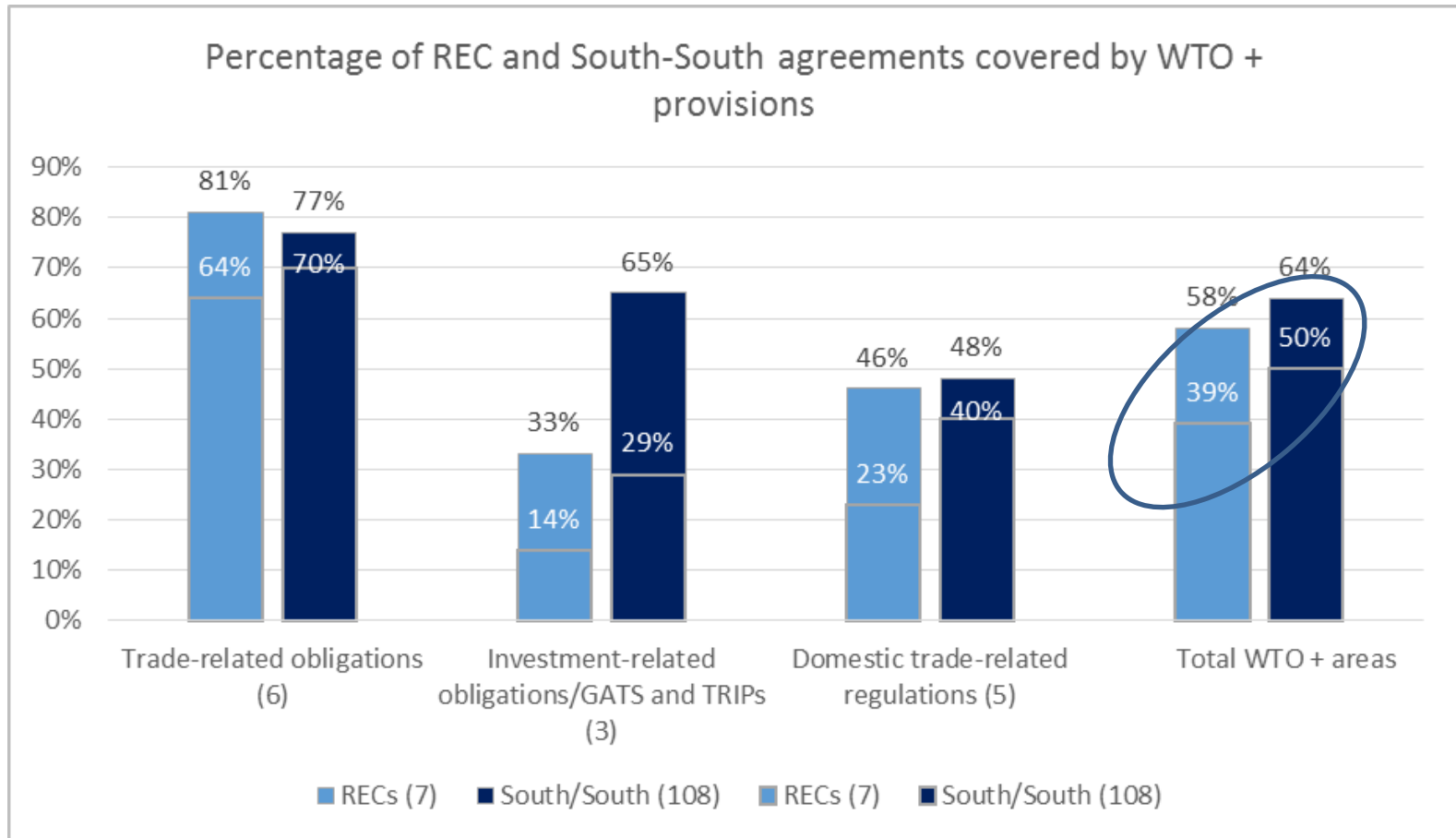
Figure 1: Preferential and Multilateral Liberalization

Source: Limaõ (2015)

...gains from exchange of market access à la GATT is falling so « non-traditional » benefits from integration.

Provisions in South-South and African RTAs

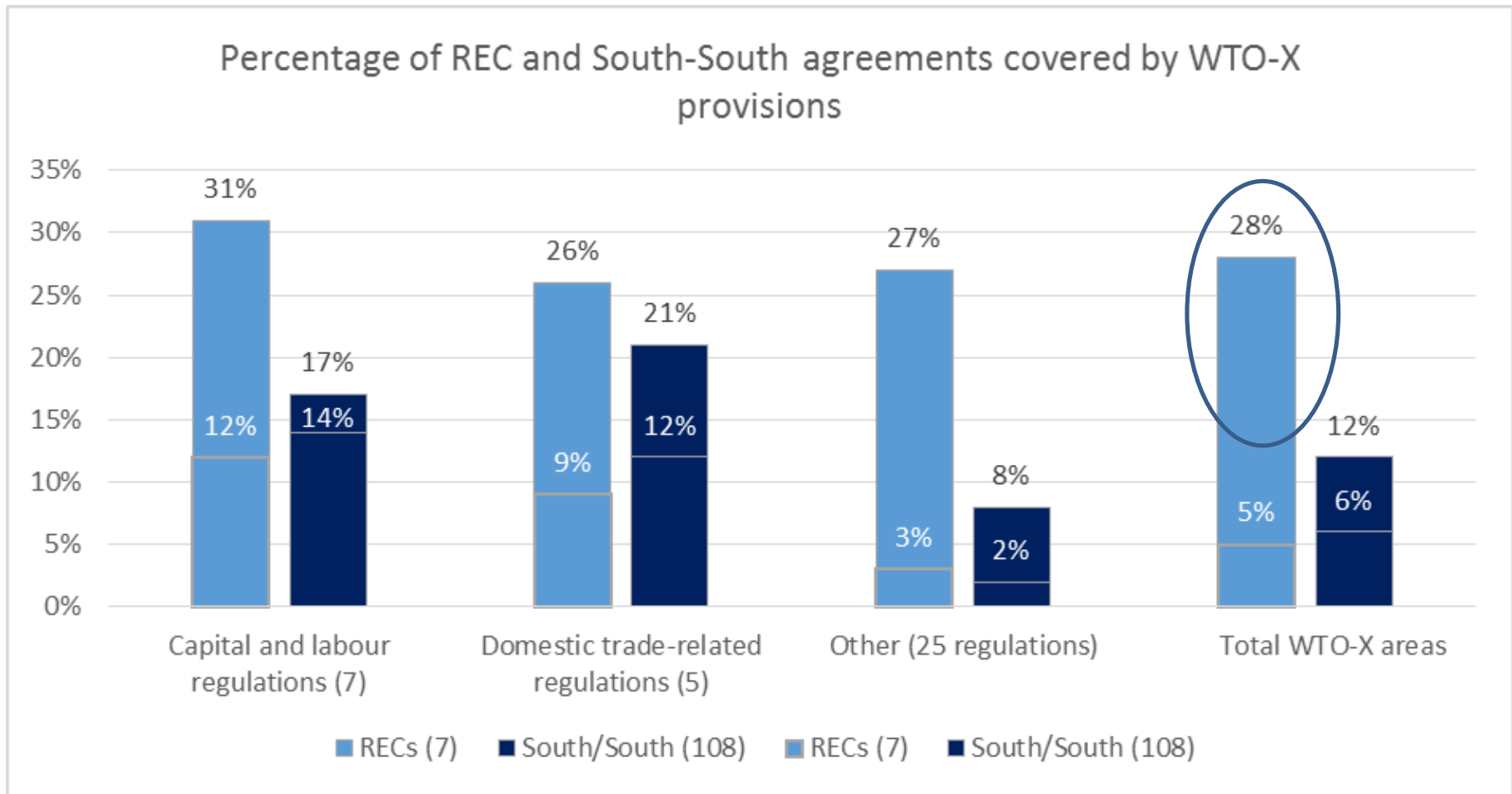
(WTO+ are provisions covered at the WTO multilateral negotiations)



Lower legal enforceability for WTO+ provisions in SSA RTAs

Negotiating beyond the WTO Agenda

(WTO-X are provisions covered not covered at the WTO multilateral negotiations)



...and lower legal enforceability for WTO.-X provisions in SSA

High Coverage/Low Legal Enforceability of SSA RTAs

- Provisions on Services in PTAs notified to WTO : 10% (of 81) prior to 2000 and 64% (of 194 PTAs) over 2000-15 (Egger and Shinghal (2016). Recognition that producer services (transport, consulting, financial services) are complementary inputs in production fn.
- Many WTO-X measures (Research and Technology, Environmental Laws, Data Protection, Cultural Protection, Regional Cooperation, nuclear safety...) have RPG dimensions
- High coverage in SSA:
 - Inspiration of coverage in EU agreements
 - Build trust by including preferences of all participants
 - A reflection of diplomacy
- Strong ELF + artificial borders \Rightarrow strong differences in policy preferences \Rightarrow low legal enforceability \Rightarrow supply of RPGs hindered

Provision of RPGs

Provision of RPGs

(Adapted from Sandler (2006 box 4.1))

Factors detracting

- Absence of donor spillovers. Increase in OECD public support (1996-8 vs. 1980-82) went mostly to NPGs rather than to transnational PGs.
- Rivalries over common pool resources
- Absence of leader typical of RECs + need for external support due to low level of development.

Factors Promoting

- Joint products, Past and ongoing dialogue in RECs)
- Fewer participants than in GPGs
- Depth (EAC)vs. Breadth (ECOWAS, COMESA)

Regional Integration of Electricity Markets

- A good example of difficulties to realize benefits from RPGs. Good example of importance of Trust
- Sufficient transmission capacity to promote competition + monitoring of competitive behaviour of market players
- Requires physical interconnection and burden sharing + congestion management (via single system operator if politically possible).
- Need to accept temporarily high prices following a supply shock but competitive prices may not be perceived as 'fair'.
- World (Trade/Production): (3%) [50%] for electricity [oil]
- Case studies of cross-jurisdictional electricity trading.

Case Studies of regional electricity markets

Nord Pool (Norway, Sweden (34% *), Finland, Denmark, Estonia, Latvia, Lithuania). Global benchmark.

⇒ Regional electricity market requires commitment to a FTA beyond WTO rules Combines goods production with services (transmission)

West African Power Pool (WAPP) (Ghana, Nigeria(50%), Senegal, CIV)

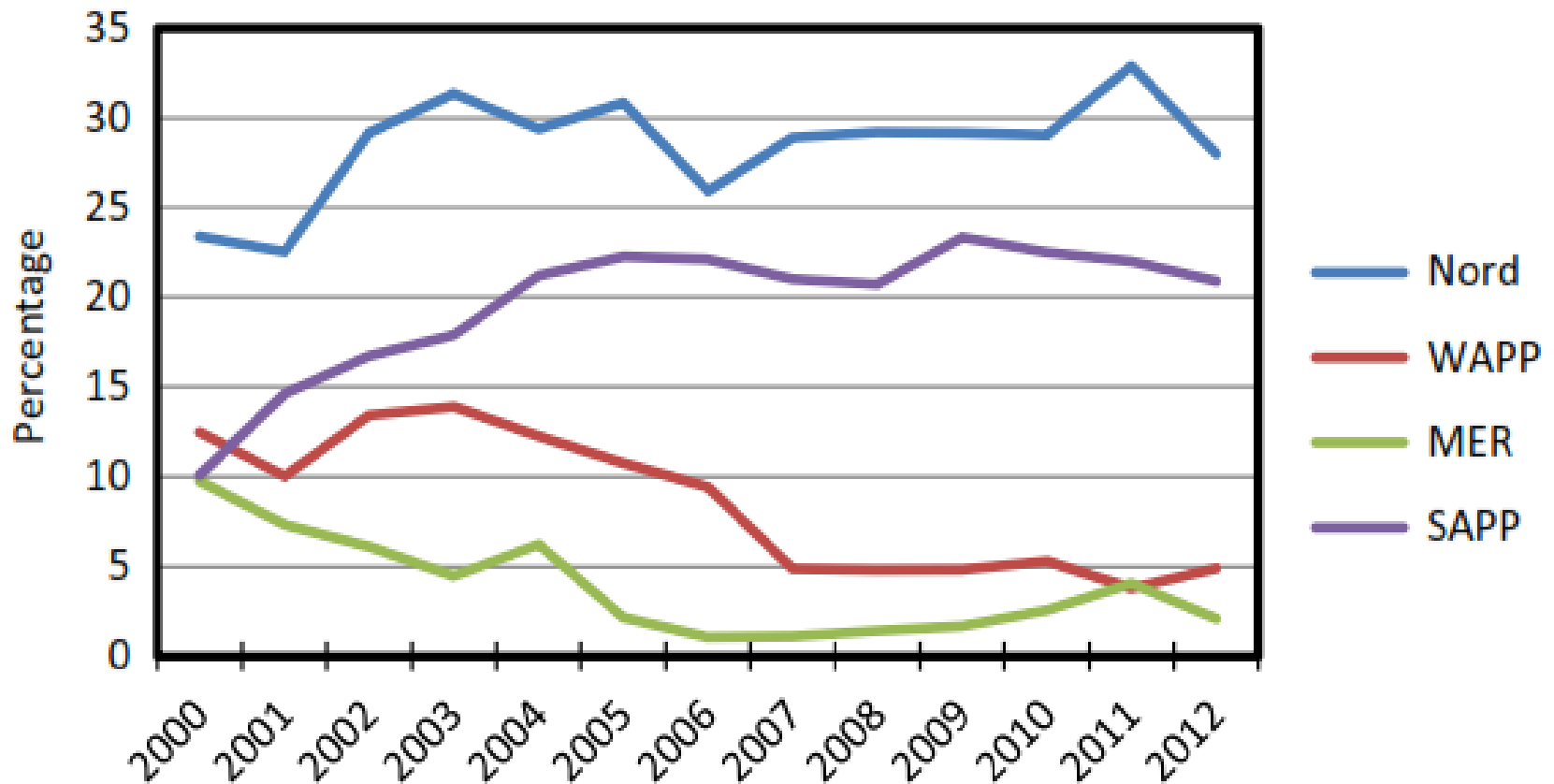
Central American Power Market (MER) (Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica (24%) , Panama)

Southern Africa Power Pool (SAPP) (DRC, Zambia, Mozambique, Botswana, South Africa (86%), Lesotho, Namibia)

*Percentage installed capacity by largest member in parenthesis.

Lessons

Trade shares in consumption fell in MER and WAPP as domestic demands for electricity rose under constrained generation.
Insufficient International Transmission Capacity (ITC)

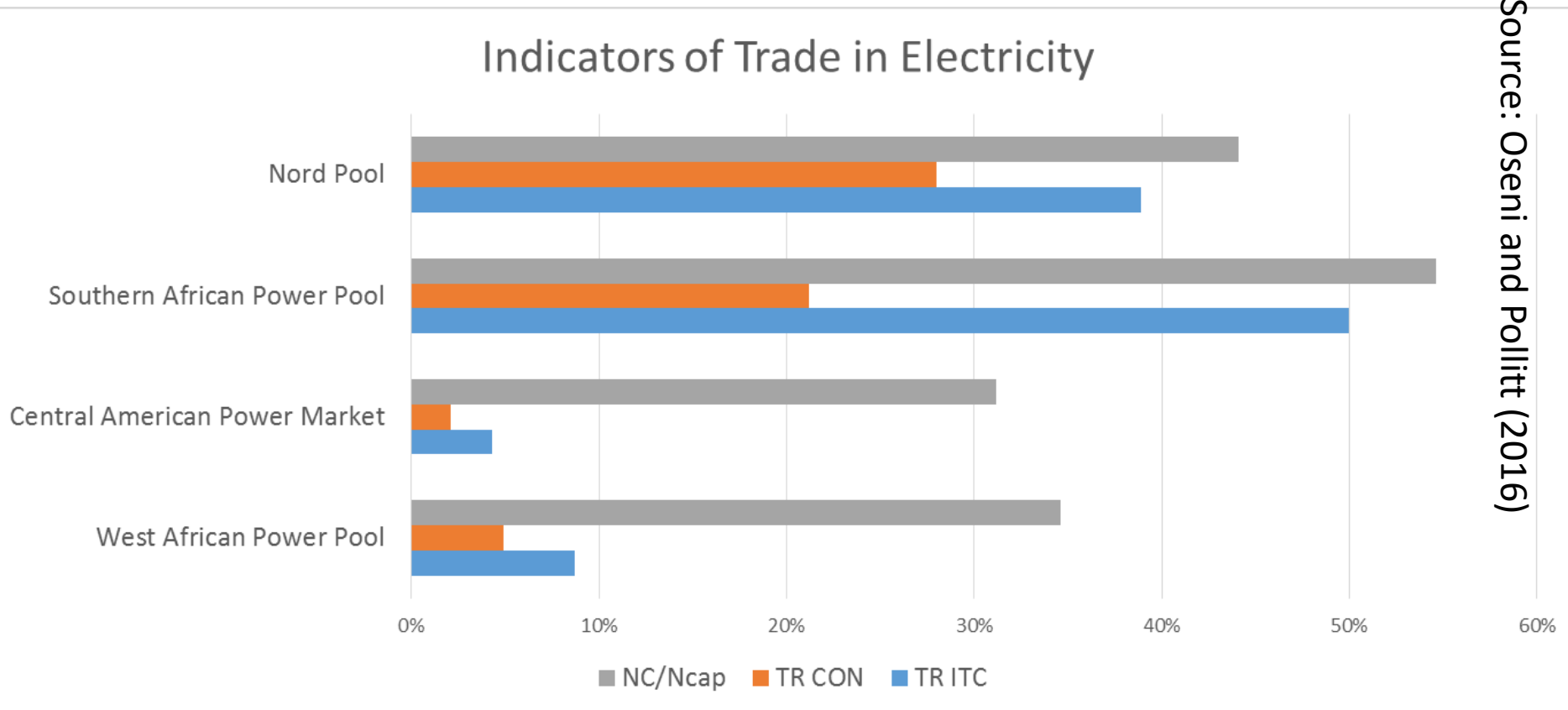


Source: Oseni and Pollitt (2016)

Fig. A1. Share (%) of Trade in Electricity Consumption by pool – selected countries.

Lessons (c'td)

- SAPP successful (SA as hegemon). Others have not developed
- Required commitment goes beyond free trade
- Need for external finance to increase capacity.
- Start with small numbers (e.g. Nord pool)



RECs and the Peace Dividend (I)

- Most RECs recognize explicitly the objective of ‘regional integration and cooperation in their texts’ (Melo and Tsikata (2015)).
- Political scientists ‘Liberal Peace Argument’: Sufficiently deep RTAs reduce information asymmetries \Rightarrow Incentives not to report true options in an attempt to extract concessions are reduced
- Discussions among members spill over to political issues diffusing political disputes (globalization does the opposite).
- Martin et al. (MMT) (2008): increased bilateral trade deters war but countries may sign an RTA because they expect probability of conflict to fall. MMT (2012) give support that frequency of past wars are more likely to sign RTAs

RTAs and the Peace Dividend (II)

- MMT estimates (1950-2000) show that country pairs with large economic gains from RTAs and high probability do not include of conflict are more likely to form an RTA. But no African countries in the sample and trade among RECs is small so opportunity cost of war likely to be small.
- Franc zone members with deep integration have had about half as many conflicts as other SSA countries (Guillaumont (2013)).
- To sum up: Trade-creating exchange increases the opportunity cost of war and the propensity to form RTAs is coherent with the vision that integration will reduce probability of conflicts (in addition to economic gains)
- A regional trade bloc can provide security and confidence to build supra-national institutions

Références (1)

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